

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name ROGERS CITY AREA SCHOOLS		County PRESQUE ISLE	
Fiscal Year End JUNE 30, 2007		Opinion Date AUGUST 10, 2007		Date Audit Report Submitted to State SEPTEMBER 22, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

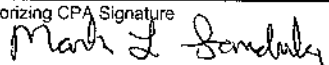
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) STRALEY, ILSLEY & LAMP P.C.			Telephone Number (989) 356-4531	
Street Address 2106 US 23 SOUTH			City ALPENA	State MI
			Zip 49707	
Authorizing CPA Signature 		Printed Name MARK L. SANDULA		License Number A 263243

ROGERS CITY AREA SCHOOLS

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended June 30, 2007

STRALEY, ILSLEY & LAMP P.C.

ROGERS CITY AREA SCHOOLS

2006 - 2007 SCHOOL YEAR

BOARD OF EDUCATION

President	2001/2009	Michael A. Marx
Vice-President	2005/2007	Scott A. McLennan
Secretary	2003/2007	Richard D. Hanson
Treasurer	2004/2008	Armand J. Loiselle
Assistant Secretary/ Treasurer	2005/2009	Lee J. Gapczynski
Trustee	2004/2008	Allan J. Smolinski
Trustee	2006/2010	Timothy J. Horn

ADMINISTRATIVE STAFF

Superintendent	Paul L. Mancine
Administrative Assistant	Sarah L. Brege
Business Coordinator	Kathleen M. Viegelahn
K – 12 Principal	Deborah A. Jones

INDEPENDENT AUDITORS..... Straley, Ilsley & Lamp P.C.

LEGAL COUNSEL..... Thrun Law Firm, P.C.

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Certified Public Accountants

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RETIRED
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Rogers City Area Schools
Rogers City, Michigan 49779

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Rogers City Area Schools**, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Rogers City Area Schools'** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Rogers City Area Schools**, as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2007, on our consideration of the **Rogers City Area Schools'** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Required Supplemental Information

The Management's discussion and analysis and the required supplementary information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Other Supplemental Information and Individual Fund Financial Statements

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the **Rogers City Area Schools'** basic financial statements. The additional information identified in the table of contents as other supplemental information and individual fund financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Staley, Isley & Lamb P.C.

August 10, 2007

Rogers City Area Schools Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2007. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Rogers City Area Schools financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's governmental funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary information for General Fund,
Building and Site (Sinking Fund),
2007 Capital Projects Fund

Other Supplemental Information

Combining Statements for Nonmajor Governmental Funds
Individual Fund Statements

Reporting the School District as a Whole – Government-Wide Financial Statements

The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information about the School District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Rogers City Area Schools Management's Discussion and Analysis

These two statements report the School District's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets – is one way to measure the School District's financial health, or position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the Rogers City Area Schools.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, food services and inter-district transfers. Property taxes, state aid and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District may establish other funds to help it control and manage money for a particular purpose (the School Services and Sinking funds are examples) or to show that it is meeting its legal responsibilities for using certain taxes, grants, or other money. The governmental funds of the School District use the following accounting approach:

Governmental Funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash.

The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

The School District as Trustee—Reporting the School District's Fiduciary Responsibilities

The School District is a trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We excluded these activities from the School District's other financial statement because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Rogers City Area Schools Management's Discussion and Analysis

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2007:

TABLE 1

	<u>2007</u>	<u>2006</u>
ASSETS		
Current and Other Assets	\$ 2,815,845	\$ 1,926,209
Property and Equipment	<u>3,624,440</u>	<u>3,446,742</u>
Total Assets	<u>\$ 6,440,285</u>	<u>\$ 5,372,951</u>
LIABILITIES		
Current Liabilities	\$ 579,273	\$ 359,495
Long-Term Liabilities	<u>879,169</u>	<u>26,664</u>
Total Liabilities	<u>\$ 1,458,442</u>	<u>\$ 386,159</u>
NET ASSETS		
Invested in property and equipment –		
Net of related debt	\$ 3,377,602	\$ 3,446,742
Unrestricted	<u>1,604,241</u>	<u>1,540,050</u>
Total Net Assets	<u>\$ 4,981,843</u>	<u>\$ 4,986,792</u>

The above analysis focuses on the net assets. The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$4,981,843 at June 30, 2007. Capital assets, net of related debt totals \$3,377,602 and compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. The remaining amount of the net assets of \$1,604,241 was unrestricted.

The \$1,604,241 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2007 as compared to fiscal 2006.

**Rogers City Area Schools
Management's Discussion and Analysis**

TABLE 2

	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ 279,173	\$ 291,633
Operating grants	284,305	271,614
General revenue:		
Property taxes	1,778,949	1,694,177
State aid	3,107,874	3,161,754
Investment Earnings	82,038	48,591
Miscellaneous	<u>12,172</u>	<u>30,096</u>
Total revenue	\$ <u>5,544,511</u>	\$ <u>5,497,865</u>
Functions/Program Expenses		
Instruction	\$ 3,274,533	\$ 3,333,495
Support services	1,545,484	1,536,837
Community services	8,299	8,670
Athletics	142,151	152,931
Food services	190,468	174,948
Interdistrict Transfers	737	779
Building and site acquisition	115,669	-
Interest on long-term debt	16,441	1,078
Depreciation (unallocated)	<u>255,678</u>	<u>236,859</u>
Total expenses	<u>5,549,460</u>	<u>5,445,597</u>
Increase <Decrease> in Net Assets	\$ <u>(4,949)</u>	\$ <u>52,268</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$5,549,460. Certain activities were partially funded from those who benefited from the programs \$279,173, or by other governments and organizations that subsidized certain programs with grants and contributions \$284,305. The District paid for the remaining "public benefit" portion of our governmental activities with \$1,778,949 in taxes, \$3,107,874 in state aid and with \$94,210 of our other revenues (i.e., interest and other general revenue).

The School District experienced a decrease in net assets of \$(4,949). The key reason for the change in net assets included a decrease in State Aid from the previous year in the amount of \$53,880 despite net increases in property taxes of \$84,772. The School district also had \$115,669 in non-capitalized repairs. The District's capital assets also increased \$177,698.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

Rogers City Area Schools Management's Discussion and Analysis

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide and may provide more insight into the School District's overall financial health. As the School District completed this year, the governmental funds reported a combined fund balance of \$2,388,105 which is an increase of \$818,886 from last year. The primary reason for this increase emanates from the building and site fund reserve of \$ 645,385 and the 2007 Capital Projects Fund designation of \$768,384 for future capital improvements.

The General Fund fund balance available to fund general operations costs for instructional, administrative and support services increased \$27,904 to remain stable at \$921,344.

General Fund Budgetary Highlights

During the course of the year, the school district performs budget amendments as necessary to reflect changes from the original budget adopted in June of 2006. These budget amendments reflect changes in enrollment, personnel and other costs that became more defined during the fiscal year. Three budget amendments were made during the 2006-07 fiscal year with the final amendment being made in June, 2007. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements).

A large portion (67%) of the school district funding is in the form of state aid and federal grants. Generally, the amount of assistance from state aid, state grants and federal grants is not known until the fiscal year has been partially completed. The 2006-07 state foundation grant of \$7,085 per pupil, as compared to former years, was fully funded by the State of Michigan.

Overall, the districts revenues exceeded expenditures by \$27,904 thereby increasing the fund equity to \$921,344, which equates to 18.7 percent of the total district expenditures made in 2006-07.

Debt Administration

At the end of this year, the School District had \$1,024,169 in outstanding bonded debt which was increased by \$995,000 from the prior year. On January 30, 2007 the Rogers City Area Schools issued the 2007 School (Capital Projects) Building and Site Bonds for \$995,000. This bonded debt will be repaid to the bondholders over the next six fiscal years. The balance of debt of \$29,169 is a memo entry only since it represents the bonds issued by the State of Michigan to fund the Durant I Special Education settlement. The annual payments are made directly by the State of Michigan to the bondholders.

**Rogers City Area Schools
Management's Discussion and Analysis**

Capital Assets

At June 30, 2007, the School District had \$3,624,440 invested in a broad range of capital assets, including land, buildings, furniture and equipment, and vehicles. The Capital Assets experienced a net increase (including additions, deductions, and depreciation) of approximately \$177,698 from last year. This represented additions and adjustments of \$433,376, offset by depreciation of \$255,678.

	<u>2007</u>	<u>2006</u>
Assets not being depreciated – Land	\$ 109,763	\$ 109,763
Land Improvements	56,470	56,470
Buildings and improvements	6,571,060	6,162,462
Office and Computer equipment	1,625,414	1,604,799
Vehicles	<u>479,300</u>	<u>475,137</u>
 Total capital assets	 8,842,007	 8,408,631
 Less accumulated depreciation	 <u>(5,217,567)</u>	 <u>(4,961,889)</u>
 Net capital assets	 <u>\$ 3,624,440</u>	 <u>\$ 3,446,742</u>

This year's additions of \$433,376 included building renovations, bathroom additions and electrical/heating upgrades to the Rogers City Elementary School.

Economic Factors and Next Year's Budgets and Rates

Our Board of Education and administration consider many factors when setting the School District's 2007-08 fiscal year budgets. The 2007-08 fiscal year budgets were adopted in June 2007 based on student enrollment, property valuations, state and federal revenue estimates available at that time. Under state law, the School District cannot access additional property taxes for operations without a vote by the electorate within the ISD. As a result, district funding is heavily dependent on the State's ability to fund local school district operations. Once final pupil counts and added cost calculations are made, State law requires the School District to amend the budget if actual resources are not sufficient to fund original appropriations. Since the School District's revenue is heavily dependent on State funding and the economic health of the State's School Aid fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The state periodically holds a revenue estimating conference to estimate revenues. The School Aid Fund receives a significant amount of revenue from the 2% additional sales tax voted under Proposal A. Accordingly, statewide economic activity has a direct impact on the amount of foundation grant that is funded by the State of Michigan. The foundation grant, as proposed by Governor Granholm, for 2007-08 is estimated at \$7,085 per pupil.

Rogers City Area Schools Management's Discussion and Analysis

Additionally, the impact of declining enrollment has seriously limited the districts ability to fund current programs. Schools are funded under Proposal, A which directly ties the local school state aid to the number of pupils enrolled. The Rogers City Area School District enrollment has declined by approximately two hundred students over the past eight years. This trend is expected to continue based upon the economic conditions within the district. Due to state aid limitations and enrollment declines, the district has had to utilize, over the previous three years, \$172,640 of the fund balance in order to maintain basic programs.

Three additional factors, among others, that are having a significant impact on the allocation of resources of the district include escalating health care costs, retirement fund contributions and increased energy costs. For the fiscal year ended June 30, 2007, these costs consumed 28% of the budget. We are projecting that these costs will continue to rise in the immediate future. Most importantly, we can predict that these costs will continue to absorb an increasing proportion of the available financial resources.

Under the supervision of the districts' architect and the construction manager, these items are going to be completed during the summer of 2007 as designated in the financial statements as a reserve in the fund balance for both the Building & Site Fund and the 2007 Capital Projects Fund. The end result will be a more energy efficient, ADA compliant, and a healthier environment for staff and students of the district.

The School District secured a school bond in the amount of \$995,000 for the purposes of renovating the Rogers City Elementary School Building. The districts' Building & Site Fund is contributing \$500,000 to the project. Included in the Elementary School renovations are the following items: Total asbestos abatement, converting the heating system from steam to hot water along with new heating controls, replacing unit ventilators, replacement of all windows, installation of emergency exit doors to all classrooms, new carpet and tile, outdoor panels surrounding the new windows, suspended ceilings, wheelchair lift, new lights, electrical wiring and fire alarm system.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Coordinator of Rogers City Area Schools, Kathleen M. Viegelahn, at 251 West Huron, Rogers City, Michigan 49779, (989)734-9100.

BASIC FINANCIAL STATEMENTS

Rogers City Area Schools

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
<hr/>	
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,204,343
Due from other governmental units	584,674
Other current assets	26,828
	<hr/>
Total Current Assets	2,815,845
	<hr/>
NON-CURRENT ASSETS	
Capital Assets	8,842,007
Less: Accumulated Depreciation	(5,217,567)
	<hr/>
Total Non-Current Assets	3,624,440
	<hr/>
TOTAL ASSETS	<u><u>\$ 6,440,285</u></u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 75,683
Due to other governmental units	75,873
Accrued expenditures	260,396
Other current liabilities	22,321
Current portion of long-term debt	145,000
	<hr/>
Total Current Liabilities	579,273
NON-CURRENT LIABILITIES	
Non-current portion of Long-term debt	879,169
	<hr/>
TOTAL LIABILITIES	<u>1,458,442</u>
NET ASSETS	
Investment in capital assets, net of related debt	3,377,602
Unrestricted	
Designated	479,358
Undesignated	1,124,883
	<hr/>
TOTAL NET ASSETS	<u><u>\$ 4,981,843</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Rogers City Area Schools

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

Year ended June 30, 2007

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Assets
FUNCTION / PROGRAMS				
Instruction	\$ 3,274,533	\$ 132,208	\$ 128,743	\$ (3,013,582)
Supporting services	1,545,484	6,182	38,643	(1,500,659)
Community services	8,299	-	7,632	(667)
Interdistrict transfers	737	-	-	(737)
Athletics	142,151	53,929	-	(88,222)
Food services	190,468	86,854	109,287	5,673
Building and site	115,669	-	-	(115,669)
Interest on long-term debt	16,441	-	-	(16,441)
Depreciation - unallocated	255,678	-	-	(255,678)
Total Governmental Activities	5,549,460	279,173	284,305	(4,985,982)
General Revenues:				
Property taxes, levied for general purposes				1,493,053
Property taxes, levied for sinking fund				285,896
State aid				3,107,874
Investment earnings				82,038
Miscellaneous				12,172
Total General Revenues				4,981,033
Change in Net Assets				(4,949)
Net Assets - Beginning of the year				4,986,792
Net Assets - End of the year				\$ 4,981,843

The accompanying notes to financial statements are an integral part of this statement.

Rogers City Area Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	General Fund	Building and Site Fund (Sinking Fund)	2007 Capital Projects Fund
ASSETS			
Cash and cash equivalents	\$ 717,875	\$ 645,385	\$ 782,759
Due from other funds	-	-	-
Due from other governmental units	584,674	-	-
Other current assets	26,828	-	-
Total assets	<u>\$ 1,329,377</u>	<u>\$ 645,385</u>	<u>\$ 782,759</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 59,364	\$ -	\$ 14,375
Due to other funds	1,602	-	-
Due to other governmental units	75,873	-	-
Accrued expenditures	248,873	-	-
Other current liabilities	22,321	-	-
Total liabilities	<u>408,033</u>	<u>-</u>	<u>14,375</u>
Fund Equity			
Fund balances			
Unreserved			
Designated	37,545	421,573	768,384
Undesignated	883,799	223,812	-
	<u>921,344</u>	<u>645,385</u>	<u>768,384</u>
Total liabilities and fund balances	<u>\$ 1,329,377</u>	<u>\$ 645,385</u>	<u>\$ 782,759</u>

The accompanying notes to financial statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 58,324	\$ 2,204,343
1,602	1,602
-	584,674
-	26,828
<u>\$ 59,926</u>	<u>\$ 2,817,447</u>
\$ 1,944	\$ 75,683
-	1,602
-	75,873
4,990	253,863
-	22,321
<u>6,934</u>	<u>429,342</u>
18	1,227,520
<u>52,974</u>	<u>1,160,585</u>
<u>52,992</u>	<u>2,388,105</u>
<u>\$ 59,926</u>	<u>\$ 2,817,447</u>

Rogers City Area Schools

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES**

June 30, 2007

Total Governmental Fund Balances		\$	2,388,105
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
Capital Assets	\$	8,842,007	
Less: Accumulated Depreciation		<u>(5,217,567)</u>	
			3,624,440
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
Accrued interest payable		(6,533)	
Bonds payable		<u>(1,024,169)</u>	
			<u>(1,030,702)</u>
Total Net Assets - Governmental Activities		\$	<u><u>4,981,843</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Rogers City Area Schools

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS**

Year ended June 30, 2007

	General Fund	Building and Site Fund (Sinking Fund)	2007 Capital Projects Fund
REVENUES			
Local sources	\$ 1,555,257	\$ 317,494	\$ 20,222
State sources	3,109,403	-	-
Federal sources	165,276	-	-
Interdistrict sources	117,318	-	-
Total revenues	4,947,254	317,494	20,222
EXPENDITURES			
Instruction	3,274,533	-	-
Supporting services	1,545,484	-	-
Community services	8,299	-	-
Interdistrict transfers	737	-	-
Athletics	-	-	-
Food services	-	-	-
Building and site	-	302,207	246,838
Debt service			
Principal	-	-	-
Interest and fees	-	-	-
Total expenditures	4,829,053	302,207	246,838
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	118,201	15,287	(226,616)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	995,000
Transfers from other funds	18,000	-	-
Transfer to other funds	(108,297)	(9,908)	-
	(90,297)	(9,908)	995,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	27,904	5,379	768,384
FUND BALANCES , beginning of the year	893,440	640,006	-
FUND BALANCES , end of the year	\$ 921,344	\$ 645,385	\$ 768,384

The accompanying notes to financial statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 142,042	\$ 2,035,015
8,212	3,117,615
109,287	274,563
-	117,318
259,541	5,544,511
-	3,274,533
-	1,545,484
-	8,299
-	737
142,151	142,151
190,468	190,468
-	549,045
-	-
9,908	9,908
342,527	5,720,625
(82,986)	(176,114)
-	995,000
118,205	136,205
(18,000)	(136,205)
100,205	995,000
17,219	818,886
35,773	1,569,219
\$ 52,992	\$ 2,388,105

Rogers City Area Schools

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year ended June 30, 2007

Total net change in fund balances - governmental funds	\$	818,886
--------------------------------------------------------	----	---------

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense.

Capital Asset Additions	\$	433,376	
Depreciation Expense		<u>(255,678)</u>	
			177,698

The borrowing of long-term debt is an other financing source
in the governmental funds, but the borrowings increase
long-term liabilities in the statement of net assets.

Bond proceeds	(995,000)
---------------	-----------

Some expenses reported in the statement of activities do not
require the use of current financial resources and therefore are
not reported as expenditures in governmental funds.

Change in accrued interest payable	<u>(6,533)</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>(4,949)</u></u>
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Rogers City Area Schools

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 71,097</u>
TOTAL ASSETS	<u><u>\$ 71,097</u></u>
LIABILITIES	
Due to student groups	<u>\$ 71,097</u>
Total liabilities	<u>71,097</u>
NET ASSETS	
Unrestricted	
Undesignated	<u>-</u>
TOTAL NET ASSETS	<u><u>\$ -</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.

The financial statements of Rogers City Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below:

A. Description of Operations and Reporting Entity.

Description of Operations. The School District operates under a locally elected seven-member Board form of government and provides educational and supportive services as mandated by the State of Michigan and/or federal agencies. The Rogers City Area Schools were organized in 1896. This Board of Education controls the School District's instructional and support facilities and provides services to approximately 606 in grades K-12.

Reporting Entity. A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Rogers City Area Schools, this includes general operations, food services, athletics, building and site (sinking fund), 2007 capital projects, 2007 building and site bond debt service, and student and supportive service activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt, or the levying of taxes. The School District has no component units.

B. Fund Accounting.

Fund Accounting. The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds. Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund. This fund is used to record the general operations of the School District pertaining to education and those transactions not accounted for in another fund. Included are all transactions related to the approved current operating budget.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

The expenditures are classified in accordance with the latest revised edition of the *Accounting Manual for Michigan School Districts* (Bulletin 1022, as revised) issued by the Michigan Department of Education as follows:

Instruction - Instruction includes the activities dealing directly with the teaching of pupils or the interaction between teacher and pupils. Teaching may be provided for pupils in a school classroom; in another location, such as in a home or hospital; and other learning situations, such as those involving co-curricular activities. It may also be provided through some other approved medium, such as television, radio, telephone, and correspondence. Included here are the activities of aides, assistants of any type, and supplies and machines which assist directly in the instruction process.

Supporting Services - Supporting services are those services which provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction and, to a lesser degree, community services. Supporting services exist as adjuncts for the fulfillment of the objectives of instruction, rather than as entities within themselves.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specific purposes. The only special revenue fund is the School Service Fund which maintains the school's food service and athletics activities.

Debt Service Funds. The Debt Service Funds are used to account for the accumulation of resources, and for the payment of general long-term debt principal, interest and related costs.

Capital Projects Funds. The Capital Projects Funds are used to account for all resources for the acquisition of capital facilities by the District. The Sinking Fund Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this fund, The School District has complied with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds. Trust and Agency Fund. Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for others. The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school related purposes.

C. Basis of Presentation.

Government-wide Financial Statements. The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The financial activities of Rogers City Area Schools are all considered governmental and do not reflect any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements. Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues. Exchange and Non-exchange Transactions -Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures. On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Cash and Cash Equivalents. Cash equivalents include certificates of deposit and other short-term, highly liquid investments that are readily convertible to known amounts of cash.

During the fiscal year ended June 30, 2007, investments were limited to the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

Inventories and Supplies. On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

Other Current Assets. Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Interfund balances. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Capital Assets. General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

All capital assets are capitalized at cost (or estimated historical cost) using a \$2,500 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Governmental Activities	
<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
School Buses	10 years
Fleet Vehicles	8 years

Vacation and sick leave. School District policy does not provide for payments of unused sick or vacation pay, therefore, no provision has been recorded.

Accrued Liabilities and Long-term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves. The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for school funded benefits.

Net Assets. Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation is not employed by the School District. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassification. Certain items reported in the June 30, 2006, financial statements may have been reclassified to conform with the presentation for the current year.

NOTE 2--LEGAL COMPLIANCE.

Budgets and Budgetary Accounting. Prior to adoption of the budgets, the school administration prepares and submits their proposed operating budgets commencing the following July 1. A public hearing is conducted to obtain interested party comments. Prior to July 1 the budget is adopted by the Board of Education. Budgeted amounts are as originally adopted or as amended by the Board of Education. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30. The District does not consider these amendments to be significant. Unused appropriations at June 30 are not carried forward to the following year.

The provisions of the Uniform Budgeting and Accounting Act, P.A. 621 became effective in July 1981. The Act provides major revenue categories and expenditure functions that constitute minimal levels. The Rogers City Area Schools' budget was legally enacted on a functional level. Detail at the activity level is presented in the General Fund, Athletic Fund, Food Service, Debt Retirement and Sinking Fund Statement of Revenues, Expenditures and Fund Balances for the benefit of management.

P.A. 621 provides that a school district shall not incur expenditures in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section (RSI).

NOTE 3--DEPOSITS AND INVESTMENTS.

As of June 30, 2007, the District had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Liquid asset funds	\$ 510,718	0.00
Total Fair Value	<u>\$ 510,718</u>	
Portfolio weighted average maturity		<u>0.00</u>

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2007, investments were limited to the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value and included in the financial statements as a cash equivalent.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2007, the District did not have any investments which have this type of risk.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the district's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, there was \$1,585,258 of the District's bank balance of \$1,938,669 that was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the district's name. The carrying amount of all deposits is \$1,709,175.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the district will do business.

The Board of Education authorized the following financial institutions for the investment of the District's funds for the year ended June 30, 2007: Calcite Credit Union, Independent Bank, Huron National Bank, and the Michigan Liquid Asset Fund.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

NOTE 4--CAPITAL ASSETS.

Capital assets activity for the fiscal year ended June 30, 2007 was as follows:

	Balances June 30, 06	Additions	Disposals and Adjustments	Balances June 30, 07
Capital assets not being depreciated:				
Land	\$ 109,763	\$ -	\$ -	\$ 109,763
Capital assets being depreciated:				
Land improvements	56,470	-	-	56,470
Buildings and improvements	6,162,462	408,598	-	6,571,060
Funding and equipment	1,604,799	20,615	-	1,625,414
Vehicles	475,137	4,163	-	479,300
	<u>8,298,868</u>	<u>433,376</u>	<u>-</u>	<u>8,732,244</u>
Less accumulated depreciation:				
Land improvements	(56,470)	-	-	(56,470)
Buildings and improvements	(3,043,499)	(182,381)	-	(3,225,880)
Funding and equipment	(1,496,262)	(28,909)	-	(1,525,171)
Vehicles	(365,658)	(44,388)	-	(410,046)
	<u>(4,961,889)</u>	<u>(255,678)</u>	<u>-</u>	<u>(5,217,567)</u>
Net Capital Assets	<u>\$ 3,446,742</u>	<u>\$ 177,698</u>	<u>\$ -</u>	<u>\$ 3,624,440</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5--LONG-TERM DEBT (including current portions).

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2007:

	Balances, Jun 30, 06	Additions	(Deductions)	Balances, Jun 30, 07	Due within one year
General Obligation Bonds:					
1998 School Improvement Bonds (Durant bonds) dated 11/04/1998 Amount of issue - \$49,400 Maturing through 2013 Interest rate - 4.761353% Principal maturity range \$2,469- \$6,181	\$ 29,169	\$ -	\$ -	\$ 29,169	\$ -

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

NOTE 5--LONG-TERM DEBT (including current portions). (continued)

	Balances, Jun 30, 06	Additions	(Deductions)	Balances, Jun 30, 07	Due within one year
General Obligation Bonds: (continued)					
2007 School Improvement Bonds Dated 1/30/2007 Amount of issue - \$995,000 Maturing through 2013 Interest rate range - 3.80%-4.00% Principal maturity range \$145,000 -					
\$185,000	\$ -	\$ 995,000	\$ -	\$ 995,000	\$ 145,000
Total bond obligations	\$ 29,169	\$ 995,000	\$ -	\$ 1,024,169	\$ 145,000

The 1998 School Improvement Bonds (Durant Bonds), including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2007 are as follows:

<u>For the year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u>
2008	\$ 145,000	\$ 39,195	\$ 184,195
2009	157,749	34,405	192,154
2010	162,880	28,229	191,109
2011	173,017	21,852	194,869
2012	197,212	20,696	217,908
2013	188,311	7,558	195,869
	<u>\$ 1,024,169</u>	<u>\$ 151,935</u>	<u>\$ 1,176,104</u>

NOTE 6--FUND BALANCE RESERVATIONS AND DESIGNATIONS.

Amounts of the various fund balances reserved or designated at June 30 are as follows:

<u>Fund</u>	<u>2007</u>	<u>2006</u>
General Fund		
Designated for school funded benefits	\$ 37,545	\$ 37,545

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

NOTE 6--FUND BALANCE RESERVATIONS AND DESIGNATIONS. (continued)

<u>Fund</u>	<u>2007</u>	<u>2006</u>
Building and Site (Sinking Fund) Designated for capital outlay	\$ 421,573	\$ -
2007 Capital Projects Fund Designated for capital outlay	768,384	-
2007 Building and Site Bond Debt Service Fund Designated for debt retirement	<u>18</u>	<u>-</u>
Total reservations and designations	<u>\$ 1,227,520</u>	<u>\$ 37,545</u>

NOTE 7--PROPERTY TAXES.

The assessed values of real and personal property situated in the School District are established annually by local taxing authorities as of December 1, and are equalized by the State at an estimated 50% of current market value. The property tax is levied on July 1 and becomes delinquent after September 14 for City of Rogers City residents (representing approximately 40% of collections), with the remainder levied December 1 and payable by February 14. Uncollected property taxes as of March 1 are added to the County delinquent tax rolls. By agreement with Presque Isle County, the County purchases at face value the real property taxes receivable returned delinquent each March 1. The property value used for determining the amount of property tax levied is known as the "taxable value" (TV). This differs from the State Equalized Value (SEV) by increases being limited to a cost-of-living adjustment or 5 percent, whichever is less. The Taxable Value (TV) for the 2006-07 school year in the Rogers City Area Schools was established at \$84,648,859 for homestead property and \$84,145,890 for non-homestead property. The State of Michigan levies 6.0 mills on all property with the proceeds dedicated to the Michigan State Aid Fund. A local operating millage of 18.0000 mills, approved by the voters of the district, is levied against non-homestead property. The District voters also approved an additional 1.73 mills for a building and site sinking fund.

NOTE 8--SCHOOL FUNDING.

With the passage of Senate Bill 1 in August, 1993, and the subsequent approval of Proposal "A" by Michigan voters, the so-called Bursely funding formula was replaced by a system of base foundation grants per pupil in each local school district in Michigan. The basic foundation allowance is determined annually by the Legislature of the State of Michigan. The Rogers City Area Schools received a basic foundation allowance of \$7,085 per pupil based on pupil membership counts taken in February and September of 2006 for the school year ending June 30, 2007. Future adjustments to the base grant will be based on a revenue index, with districts below the statewide \$5,000 base amount receiving greater increases. Most categorical aid, including social security (FICA) and state retirement contributions, was rolled into the base foundation amount, except for special education, special education transportation, adult education, early childhood education and vocational education funding.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

NOTE 8--SCHOOL FUNDING. (continued)

As part of Proposal "A", a two-cent increase in the state sales tax was approved along with several other smaller specific tax increases, while eliminating local school operating property taxes for homestead and qualified agricultural property owners. A 6-mill statewide education tax was imposed on all property, with an additional local property tax of 18 mills required on all non-homestead and non-qualified agricultural properties. The 6-mill education tax is not subject to further voter approval, but continuing authorization from local voters for the 18-mill local tax is required. The State of Michigan revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units. Further authorization was granted to local school districts to secure voter approval for up to 3 enhancement mills for up to three years, beginning with the 1994-95 school year. After the 1996-97 school year, any enhancement mills must be approved on an intermediate school district-wide basis.

NOTE 9--DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS.

Plan Description. The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple- employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7611.

Funding Policy. Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 16.34 percent for the period from July 1, 2006 through September 30, 2006, and 17.74 percent from October 1, 2005 through June 30, 2006 of the covered payroll to the plan. The School District's contributions to the MPERS plan for the years ended June 30, 2007, and 2006 were \$477,429 and \$468,222, respectively. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. For the years ended June 30, 2007 and 2006, Rogers City Area School employees contributed \$90,608 and \$98,324, respectively.

Postemployment Benefits. Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

NOTE 10--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS.

The composition of interfund balances at June 30, 2007 is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Funds		
Food Services Fund	\$ 1,602	\$ -
General Fund	<u>-</u>	<u>1,602</u>
	<u>\$ 1,602</u>	<u>\$ 1,602</u>

The interfund balance represents routine and temporary cash flow assistance to the Food Services Fund.

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 18,000	\$ 108,297
Building and Site (Sinking Fund)	-	9,908
Athletics	107,781	18,000
Food Services	516	-
2007 Building and Site Bond Debt Service	<u>9,908</u>	<u>-</u>
	<u>\$ 136,205</u>	<u>\$ 136,205</u>

The transfers to the athletics and food services were to subsidize operations. The transfer from the building and site (sinking fund) to the 2007 building and site bond debt service was for the retirement of debt.

NOTE 11--CONTINGENCIES, CLAIMS AND LITIGATION.

There are currently no known legal actions pending against the School District that would require recording a liability. It is the policy of Rogers City Area Schools to record a liability for any contingency, claim or lawsuit when the loss is probable and an amount can be reasonably estimated.

The district has active capital projects outstanding at June 30, 2007. Approximately \$1,200,000 is committed to finish the renovation of the Rogers City Elementary School Building.

Rogers City Area Schools

NOTES TO FINANCIAL STATEMENTS

NOTE 12--RISK MANAGEMENT.

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and excess insurance coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The School District participates in the MASB-SEG Property and Casualty Pool for general and automobile liability, motor vehicle physical damage and property damage coverage. The MASB-SEG Property/Casualty Pool, Inc. was established in May 1985, pursuant to the laws of the State of Michigan. The purpose of the pool is to provide cooperative and comprehensive risk financing and control services. Member premiums are used to purchase excess insurance coverage and pay member claims in excess of deductible amounts. The deductible amount of any one loss ranges from \$250 to \$1,000 with a maximum coverage amount of \$2,000,000 for liability claims.

The School District also participates in the SEG-Self-Insured Worker's Disability Compensation Fund for its Workers Compensation liabilities with coverage specific/statutory (unlimited) employers' liability of \$500,000.

The School District has purchased commercial insurance for medical, life insurance, long-term disability, dental and vision benefits claims for employees and their eligible dependents.

**REQUIRED SUPPLEMENTARY INFORMATION
AND ADDITIONAL INFORMATION**

Rogers City Area Schools

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year ended June 30, 2007

	Budget Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Local sources	\$ 1,575,200	\$ 1,568,200	\$ 1,555,257	\$ (12,943)
State sources	3,077,700	3,088,000	3,109,403	21,403
Federal sources	188,335	166,888	165,276	(1,612)
Interdistrict sources	110,000	117,000	117,318	318
Total revenues	4,951,235	4,940,088	4,947,254	7,166
EXPENDITURES				
Instruction	3,261,632	3,312,768	3,274,533	38,235
Supporting services	1,617,347	1,611,906	1,545,484	66,422
Community services	29,900	9,535	8,299	1,236
Interdistrict transfers	800	800	737	63
Total expenditures	4,909,679	4,935,009	4,829,053	105,956
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	41,556	5,079	118,201	113,122
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	18,000	18,000	18,000	-
Transfers to other funds	(118,500)	(118,500)	(108,297)	10,203
	(100,500)	(100,500)	(90,297)	10,203
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(58,944)	(95,421)	27,904	123,325
FUND BALANCES , beginning of the year	893,440	893,440	893,440	-
FUND BALANCES , end of the year	\$ 834,496	\$ 798,019	\$ 921,344	\$ 123,325

Rogers City Area Schools

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BUILDING AND SITE FUND (SINKING FUND)

Year ended June 30, 2007

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 314,730	\$ 314,730	\$ 317,494	\$ 2,764
Total revenues	314,730	314,730	317,494	2,764
EXPENDITURES				
Capital outlay				
Building improvements	350,000	350,000	299,207	50,793
Grounds improvements	20,000	20,000	3,000	17,000
Equipment replacement	-	-	-	-
Total expenditures	370,000	370,000	302,207	67,793
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(55,270)	(55,270)	15,287	70,557
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	-	-
Transfers to other funds	(9,908)	(9,908)	(9,908)	-
	(9,908)	(9,908)	(9,908)	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(65,178)	(65,178)	5,379	70,557
FUND BALANCES , beginning of the year	640,006	640,006	640,006	-
FUND BALANCES , end of the year	\$ 574,828	\$ 574,828	\$ 645,385	\$ 70,557

Rogers City Area Schools

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - 2007 CAPITAL PROJECTS FUND

Year ended June 30, 2007

	Budget Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Local sources	\$ 14,000	\$ 14,000	\$ 20,222	\$ 6,222
Total revenues	14,000	14,000	20,222	6,222
EXPENDITURES				
Capital outlay				
Building improvements	150,000	150,000	246,838	(96,838)
Total expenditures	150,000	150,000	246,838	(96,838)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(136,000)	(136,000)	(226,616)	(90,616)
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	995,000	995,000	995,000	-
Transfers from other funds	-	-	-	-
Transfers to other funds	-	-	-	-
	995,000	995,000	995,000	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	859,000	859,000	768,384	(90,616)
FUND BALANCES , beginning of the year	-	-	-	-
FUND BALANCES , end of the year	\$ 859,000	\$ 859,000	\$ 768,384	\$ (90,616)

Rogers City Area Schools

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

June 30, 2007

	Athletics Fund	Food Services Fund	2007 Building and Site Bond Debt Service Fund
ASSETS			
Cash and cash equivalents	\$ 13,135	\$ 45,171	\$ 18
Due from other funds	-	1,602	-
Total assets	<u>\$ 13,135</u>	<u>\$ 46,773</u>	<u>\$ 18</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ -	\$ 1,944	\$ -
Accrued expenditures	-	4,990	-
Total liabilities	<u>-</u>	<u>6,934</u>	<u>-</u>
Fund Equity			
Fund balances			
Unreserved			
Designated	-	-	18
Undesignated	13,135	39,839	-
	<u>13,135</u>	<u>39,839</u>	<u>18</u>
Total liabilities and fund balances	<u>\$ 13,135</u>	<u>\$ 46,773</u>	<u>\$ 18</u>

1998 Durant Bond Debt Service Fund	Total Other Governmental Funds
\$ -	\$ 58,324
-	1,602
<u>\$ -</u>	<u>\$ 59,926</u>
\$ -	\$ 1,944
-	4,990
<u>-</u>	<u>6,934</u>
-	18
-	52,974
<u>-</u>	<u>52,992</u>
<u>\$ -</u>	<u>\$ 59,926</u>

Rogers City Area Schools

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
OTHER GOVERNMENTAL FUNDS**

June 30, 2007

	Athletics Fund	Food Services Fund	2007 Building and Site Bond Debt Service Fund
REVENUES			
Local sources	54,634	87,390	18
State sources	-	8,212	-
Federal sources	-	109,287	-
Total revenues	54,634	204,889	18
EXPENDITURES			
Athletics	142,151	-	-
Food services	-	190,468	-
Debt service	-	-	9,908
Total expenditures	142,151	190,468	9,908
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(87,517)	14,421	(9,890)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	107,781	516	9,908
Transfer to other funds	(18,000)	-	-
	89,781	516	9,908
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,264	14,937	18
FUND BALANCES, beginning of the year	10,871	24,902	-
FUND BALANCES, end of the year	\$ 13,135	\$ 39,839	\$ 18

1998 Durant Bond Debt Service Fund	Total Other Governmental Funds
-	142,042
-	8,212
-	109,287
-	259,541
-	142,151
-	190,468
-	9,908
-	342,527
-	(82,986)
-	118,205
-	(18,000)
-	100,205
-	17,219
-	35,773
\$ -	\$ 52,992

INDIVIDUAL FUND STATEMENTS

Rogers City Area Schools

**GENERAL FUND
BALANCE SHEET**

	June 30	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 717,875	\$ 579,041
Accounts receivable	-	55
Due from other governmental units	584,674	610,401
Other current assets	26,828	50,193
Total assets	<u>\$ 1,329,377</u>	<u>\$ 1,239,690</u>
LIABILITIES AND EQUITIES		
Accounts payable	\$ 59,364	\$ 79,469
Due to other funds	1,602	740
Due to other governmental units	75,873	58,648
Accrued expenditures	248,873	201,824
Other current liabilities	22,321	5,569
Total liabilities	<u>408,033</u>	<u>346,250</u>
Fund Balances		
Unreserved		
Designated	37,545	37,545
Undesignated	883,799	855,895
Total fund balances	<u>921,344</u>	<u>893,440</u>
Total liabilities and fund equities	<u>\$ 1,329,377</u>	<u>\$ 1,239,690</u>

Rogers City Area Schools

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
REVENUES			
LOCAL SOURCES			
Property tax levy	\$ 1,514,600	\$ 1,492,284	\$ 1,421,193
Penalties and interest on taxes	1,000	769	661
Earnings on investments and deposits	19,000	30,197	28,012
Transportation fees	4,000	6,182	6,976
Drivers education fees	15,000	14,890	22,105
Facility rental fees	8,600	7,922	18,614
Private sources (contributions)	-	300	14,062
Miscellaneous local revenues	6,000	2,713	(2,870)
Total local sources	1,568,200	1,555,257	1,508,753
STATE SOURCES			
Unrestricted - State Aid Revenues			
Foundation grant	2,823,400	2,805,069	2,905,623
Renaissance zone	1,000	548	507
Restricted - State Aid Revenues			
Special education foundation	150,100	191,913	134,172
Special education	4,000	3,469	23,275
At-risk funds	94,000	93,723	80,843
Durant settlement	5,000	4,940	4,940
MI-DHS SFSC funds	9,000	8,134	8,000
COP-ESD Other	1,500	1,607	2,126
Total state sources	3,088,000	3,109,403	3,159,486
FEDERAL SOURCES			
Title I	111,553	107,352	98,758
Improving teacher quality	46,000	46,047	46,688
Title V	1,400	1,612	3,251
Hurricane Katrina	2,200	2,264	-
Technology literacy challenge	1,000	1,058	2,551
COP-ESD Medicaid outreach claims	4,000	2,314	6,776
COP-ESD Other	735	4,629	1,085
Total federal sources	166,888	165,276	159,109
INTERDISTRICT SOURCES			
Special education tax	117,000	117,318	120,937
Other	-	-	1,802
Total interdistrict sources	117,000	117,318	122,739
Total revenues	4,940,088	4,947,254	4,950,087

Rogers City Area Schools

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
EXPENDITURES			
INSTRUCTION			
BASIC PROGRAMS			
Elementary			
Salaries	\$ 706,330	\$ 707,657	\$ 723,890
Employee benefits	370,332	355,774	357,387
Purchased services	16,000	14,298	15,140
Supplies and materials	28,300	24,374	20,588
Capital outlay	4,000	1,764	704
	<u>1,124,962</u>	<u>1,103,867</u>	<u>1,117,709</u>
High School			
Salaries	952,700	949,662	1,007,668
Employee benefits	511,247	506,790	501,859
Purchased services	48,000	51,643	38,622
Supplies and materials	42,000	39,638	35,699
Capital outlay	20,000	17,867	13,273
	<u>1,573,947</u>	<u>1,565,600</u>	<u>1,597,121</u>
Total basic programs	<u>2,698,909</u>	<u>2,669,467</u>	<u>2,714,830</u>
ADDED NEEDS			
Special Education			
Salaries	306,548	306,523	317,726
Employee benefits	213,050	211,059	221,369
Purchased services	8,800	7,927	9,220
Supplies and materials	3,000	2,769	2,495
	<u>531,398</u>	<u>528,278</u>	<u>550,810</u>
Compensatory Education			
Salaries	52,725	52,450	44,159
Employee benefits	29,036	23,914	22,669
Purchased services	-	-	78
Supplies and materials	700	424	949
	<u>82,461</u>	<u>76,788</u>	<u>67,855</u>
Total added needs	<u>613,859</u>	<u>605,066</u>	<u>618,665</u>
Total instruction	<u>3,312,768</u>	<u>3,274,533</u>	<u>3,333,495</u>

Rogers City Area Schools

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
EXPENDITURES (Continued)			
SUPPORTING SERVICES			
SUPPORT SERVICES - PUPIL			
Guidance Services			
Salaries	\$ 83,768	\$ 83,143	\$ 66,387
Employee benefits	50,788	48,474	30,075
Purchased services	1,035	890	1,217
Supplies and materials	3,300	2,722	2,285
	<u>138,891</u>	<u>135,229</u>	<u>99,964</u>
Health Services			
Purchased services	17,500	17,200	17,546
Supplies and materials	1,500	1,555	1,780
	<u>19,000</u>	<u>18,755</u>	<u>19,326</u>
Other Pupil Support Services			
Salaries	10,250	9,068	13,044
Employee benefits	2,585	2,295	3,040
Purchased services	-	-	28,199
	<u>12,835</u>	<u>11,363</u>	<u>44,283</u>
Total support services - pupil	<u>170,726</u>	<u>165,347</u>	<u>163,573</u>
INSTRUCTIONAL STAFF			
Improvement of Instruction			
Purchased services	500	-	-
	<u>500</u>	<u>-</u>	<u>-</u>
Educational Media Services			
Salaries	9,250	8,868	46,065
Employee benefits	3,348	3,001	22,200
Purchased services	150	-	-
Supplies and materials	2,200	1,959	846
	<u>14,948</u>	<u>13,828</u>	<u>69,111</u>
Technology Assisted Instruction			
Salaries	47,327	46,350	49,168
Employee benefits	25,418	24,672	24,072
Purchased services	4,600	3,758	2,944
Supplies and materials	10,500	8,009	10,465
Capital outlay	5,500	3,109	1,785
	<u>93,345</u>	<u>85,898</u>	<u>88,434</u>
Total instructional staff	<u>108,793</u>	<u>99,726</u>	<u>157,545</u>

Rogers City Area Schools

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
EXPENDITURES (Continued)			
GENERAL ADMINISTRATION			
Board of Education			
Purchased services	\$ 60,250	\$ 53,355	\$ 28,415
Supplies and materials	7,500	4,287	3,001
Other	2,000	2,136	2,128
	<u>69,750</u>	<u>59,778</u>	<u>33,544</u>
Executive Administration			
Salaries	114,262	113,091	110,452
Employee benefits	33,393	33,050	30,516
Purchased services	1,200	979	1,197
Supplies and materials	200	348	321
Other	1,200	855	838
	<u>150,255</u>	<u>148,323</u>	<u>143,324</u>
Total general administration	<u>220,005</u>	<u>208,101</u>	<u>176,868</u>
SCHOOL ADMINISTRATION			
Office of the Principal			
Salaries	142,142	141,200	183,070
Employee benefits	70,134	67,970	81,228
Purchased services	2,200	2,099	1,869
Supplies and materials	3,100	2,473	2,697
Capital outlay	3,000	1,521	-
Other	550	550	2,790
	<u>221,126</u>	<u>215,813</u>	<u>271,654</u>
Total school administration	<u>221,126</u>	<u>215,813</u>	<u>271,654</u>
SUPPORT SERVICES - BUSINESS			
Fiscal Services			
Salaries	56,862	50,774	63,582
Employee benefits	29,237	27,569	26,553
Purchased services	1,900	1,718	1,964
Supplies and materials	4,500	4,254	3,710
Other	500	349	283
	<u>92,999</u>	<u>84,664</u>	<u>96,092</u>
Other Business Services			
Purchased services	3,500	2,920	3,074
	<u>3,500</u>	<u>2,920</u>	<u>3,074</u>
Total support services - business	<u>96,499</u>	<u>87,584</u>	<u>99,166</u>

Rogers City Area Schools

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
EXPENDITURES (Continued)			
OPERATIONS AND MAINTENANCE			
Operating Buildings Services			
Salaries	\$ 149,950	\$ 151,044	\$ 143,037
Employee benefits	131,703	129,376	118,568
Purchased services	79,100	74,763	78,174
Supplies and materials	150,800	139,970	147,923
Capital outlay	5,000	3,171	964
Total operations and maintenance	516,553	498,324	488,666
PUPIL TRANSPORTATION SERVICES			
Pupil Transportation Services			
Salaries	123,050	123,688	117,485
Employee benefits	108,054	101,743	95,616
Purchased services	7,800	6,249	5,793
Supplies and materials	39,300	38,909	37,306
Total pupil transportation services	278,204	270,589	256,200
SUPPORT SERVICES - CENTRAL			
Staff/Personnel Services			
Purchased services	-	-	250
Total support services - central	-	-	250
Total Supporting Services	1,611,906	1,545,484	1,613,922
COMMUNITY SERVICES			
Community Activities			
Purchased services	500	512	-
Other	500	425	-
	1,000	937	-
Non-Public School Pupils			
Salaries	4,565	4,609	4,663
Employee benefits	2,420	2,474	2,485
Purchased services	1,350	79	1,206
Supplies and materials	200	200	316
	8,535	7,362	8,670
Total Community Services	9,535	8,299	8,670

Rogers City Area Schools

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
EXPENDITURES (Continued)			
PAYMENTS TO OTHER PUBLIC SCHOOLS			
Payments to Other Public Schools			
Other transits	\$ 800	\$ 737	\$ 779
Total payments to other public schools	800	737	779
Total Expenditures	4,935,009	4,829,053	4,956,866
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	18,000	18,000	5,000
Transfers to other funds	(118,500)	(108,297)	(108,048)
	(100,500)	(90,297)	(103,048)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(95,421)	27,904	(109,827)
FUND BALANCES, beginning of the year	893,440	893,440	1,003,267
FUND BALANCES, end of the year	\$ 798,019	\$ 921,344	\$ 893,440

Rogers City Area Schools

**ATHLETICS FUND
BALANCE SHEET**

	June 30	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 13,135	\$ 12,351
Total assets	<u>\$ 13,135</u>	<u>\$ 12,351</u>
LIABILITIES AND EQUITIES		
Accounts payable	\$ -	\$ 1,480
Total liabilities	<u>-</u>	<u>1,480</u>
Fund Balances		
Unreserved		
Undesignated	<u>13,135</u>	<u>10,871</u>
Total fund balances	<u>13,135</u>	<u>10,871</u>
Total liabilities and fund equities	<u>\$ 13,135</u>	<u>\$ 12,351</u>

Rogers City Area Schools

ATHLETICS FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
REVENUES			
LOCAL SOURCES			
Earnings on investments and deposits	\$ 400	\$ 705	\$ 411
Admissions	38,300	37,562	34,996
Dues and fees	7,300	7,023	6,535
Private sources (contributions)	-	-	1,725
Miscellaneous local revenues	8,000	9,344	14,307
Total revenues	54,000	54,634	57,974
EXPENDITURES			
Athletic activities			
Salaries	90,600	86,174	85,834
Employee benefits	26,900	21,607	20,281
Purchased services	14,850	16,077	13,870
Other	20,400	18,293	32,945
Total expenditures	152,750	142,151	152,930
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	117,500	107,781	107,335
Transfers to other funds	(18,000)	(18,000)	(5,000)
	99,500	89,781	102,335
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	750	2,264	7,379
FUND BALANCES, beginning of the year	10,871	10,871	3,492
FUND BALANCES, end of the year	\$ 11,621	\$ 13,135	\$ 10,871

Rogers City Area Schools

**FOOD SERVICES FUND
BALANCE SHEET**

	June 30	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 45,171	\$ 28,321
Due from other funds	1,602	-
Due from other governmental units	-	2,221
Total assets	<u>\$ 46,773</u>	<u>\$ 30,542</u>
LIABILITIES AND EQUITIES		
Accounts payable	\$ 1,944	\$ 1,677
Accrued expenditures	4,990	3,963
Total liabilities	<u>6,934</u>	<u>5,640</u>
Fund Balances		
Unreserved		
Undesignated	<u>39,839</u>	<u>24,902</u>
Total fund balances	<u>39,839</u>	<u>24,902</u>
Total liabilities and fund equities	<u>\$ 46,773</u>	<u>\$ 30,542</u>

Rogers City Area Schools

**FOOD SERVICES FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
REVENUES			
LOCAL SOURCES			
Earnings on investments and deposits	\$ 100	\$ 535	\$ 72
Food sales	86,000	86,685	82,084
Miscellaneous local revenues	50	170	166
Total local sources	86,150	87,390	82,322
STATE SOURCES			
Restricted - State Aid Revenues			
At risk	1,000	-	-
Food services	8,000	8,212	8,925
School breakfast	600	-	628
Total state sources	9,600	8,212	9,553
FEDERAL SOURCES			
National School lunch / breakfast	86,500	97,270	84,736
USDA donated commodities	11,000	11,934	14,289
USDA bonus commodities	2,000	83	2,726
Total federal sources	99,500	109,287	101,751
Total revenues	195,250	204,889	193,626
EXPENDITURES			
Food Services			
Salaries	47,700	47,799	46,628
Employee benefits	39,200	33,632	29,517
Purchased services	1,500	536	2,014
Supplies and materials	97,000	97,518	82,541
Other	2,000	1,863	8,781
Capital outlay	14,300	9,120	5,467
Total expenditures	201,700	190,468	174,948
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	1,000	516	713
	1,000	516	713
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(5,450)	14,937	19,391
FUND BALANCES , beginning of the year	24,902	24,902	5,511
FUND BALANCES , end of the year	\$ 19,452	\$ 39,839	\$ 24,902

Rogers City Area Schools

**BUILDING AND SITE FUND (SINKING FUND)
BALANCE SHEET**

	June 30	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 645,385	\$ 643,626
Total assets	<u>\$ 645,385</u>	<u>\$ 643,626</u>
LIABILITIES AND EQUITIES		
Accounts payable	\$ -	\$ 3,620
Total liabilities	<u>-</u>	<u>3,620</u>
Fund balances		
Unreserved		
Designated	421,573	-
Undesignated	<u>223,812</u>	<u>640,006</u>
Total fund balances	<u>645,385</u>	<u>640,006</u>
Total liabilities and fund equities	<u>\$ 645,385</u>	<u>\$ 643,626</u>

Rogers City Area Schools

BUILDING AND SITE FUND (SINKING FUND)
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
REVENUES			
Local Sources			
Property tax levy	\$ 290,530	\$ 285,896	\$ 272,323
Interest on investments	23,000	30,361	20,096
Other	1,200	1,237	290
Total revenues	314,730	317,494	292,709
EXPENDITURES			
Capital outlay			
Building improvements	350,000	299,207	71,696
Grounds improvements	20,000	3,000	1,700
Total expenditures	370,000	302,207	73,396
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Transfers to other funds	(9,908)	(9,908)	-
Total other financing sources (uses)	(9,908)	(9,908)	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(65,178)	5,379	219,313
FUND BALANCES, beginning of the year	640,006	640,006	420,693
FUND BALANCES, end of the year	\$ 574,828	\$ 645,385	\$ 640,006

Rogers City Area Schools

**2007 CAPITAL PROJECTS FUND
BALANCE SHEET**

	June 30	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 782,759	\$ -
Total assets	<u>\$ 782,759</u>	<u>\$ -</u>
LIABILITIES AND EQUITIES		
Accounts payable	\$ 14,375	\$ -
Total liabilities	<u>14,375</u>	<u>-</u>
Fund balances		
Unreserved		
Designated	768,384	-
Undesignated	<u>-</u>	<u>-</u>
Total fund balances	<u>768,384</u>	<u>-</u>
Total liabilities and fund equities	<u>\$ 782,759</u>	<u>\$ -</u>

Rogers City Area Schools

**2007 CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
REVENUES			
Local Sources			
Interest on investments	\$ 14,000	\$ 20,222	\$ -
Total revenues	14,000	20,222	-
EXPENDITURES			
Capital outlay			
Building improvements	150,000	246,838	-
Total expenditures	150,000	246,838	-
OTHER FINANCING SOURCES (USES)			
Bond Proceeds	995,000	995,000	-
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	995,000	995,000	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	859,000	768,384	-
FUND BALANCES, beginning of the year	-	-	-
FUND BALANCES, end of the year	\$ 859,000	\$ 768,384	\$ -

Rogers City Area Schools

**2007 BUILDING AND SITE BOND DEBT SERVICE FUND
BALANCE SHEET**

	June 30	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 18	\$ -
Total assets	<u>\$ 18</u>	<u>\$ -</u>
LIABILITIES AND EQUITIES		
Accounts payable	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
Fund balances		
Unreserved		
Designated	18	-
Undesignated	<u>-</u>	<u>-</u>
Total fund balances	<u>18</u>	<u>-</u>
Total liabilities and fund equities	<u>\$ 18</u>	<u>\$ -</u>

Rogers City Area Schools

**2007 BUILDING AND SITE BOND DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
REVENUES			
Interest on investments	\$ 50	\$ 18	\$ -
Total revenues	50	18	-
EXPENDITURES			
Debt Service			
Principal	-	-	-
Interest and fees	9,908	9,908	-
Total expenditures	9,908	9,908	-
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	9,908	9,908	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	9,908	9,908	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	50	18	-
FUND BALANCES , beginning of the year	-	-	-
FUND BALANCES , end of the year	\$ 50	\$ 18	\$ -

Rogers City Area Schools

**1998 DURANT BOND DEBT SERVICE FUND
BALANCE SHEET**

	June 30	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND EQUITIES		
Accounts payable	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
Fund balances		
Unreserved		
Designated	-	-
Undesignated	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>
Total liabilities and fund equities	<u>\$ -</u>	<u>\$ -</u>

Rogers City Area Schools

**1998 DURANT BOND DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES**

	Year Ended June 30,		
	2007 Final Budget	2007 Actual	2006 Actual
REVENUES			
STATE SOURCES			
Restricted - State Aid Revenues			
Durant settlement	\$ 3,468	\$ -	\$ 3,469
Total revenues	3,468	-	3,469
EXPENDITURES			
Debt Service			
Principal	2,504	-	2,391
Interest and fees	964	-	1,078
Total expenditures	3,468	-	3,469
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	-
FUND BALANCES, beginning of the year	-	-	-
FUND BALANCES, end of the year	\$ -	\$ -	\$ -

Rogers City Area Schools

**AGENCY FUND - STUDENT ACTIVITIES
BALANCE SHEET**

	June 30	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 71,097	\$ 42,107
Total assets	<u>\$ 71,097</u>	<u>\$ 42,107</u>
LIABILITIES AND EQUITIES		
Due to student groups	\$ 71,097	\$ 42,107
Total liabilities	<u>71,097</u>	<u>42,107</u>
Fund balances		
Unreserved		
Designated	-	-
Undesignated	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>
Total liabilities and fund equities	<u>\$ 71,097</u>	<u>\$ 42,107</u>

Rogers City Area Schools

**AGENCY FUND - STUDENT ACTIVITIES
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Year Ended June 30, 2007

	June 30, 2006	Revenues & Transfers	Expenses & Transfers	June 30, 2007
Allan Dagner Scholarship Fund	\$ 110	\$ 250	\$ -	\$ 360
Athletics	25	540	536	29
Band	102	4,037	3,606	533
Band Boosters	-	5,320	5,309	11
Band Transportation	-	318	72	246
Band Uniforms	-	16,193	302	15,891
Basketball	54	900	383	571
Bowling	1,783	660	1,155	1,288
Cheerleaders	760	1,287	916	1,131
Class of 2007	3,412	1,219	4,355	276
Class of 2008	1,671	8,201	6,057	3,815
Class of 2009	719	2,899	367	3,251
Class of 2010	-	10,340	6,829	3,511
Close Up Washington	10	68,636	68,074	572
Counseling	10	665	657	18
Cross Country	321	2,079	1,888	512
Cross Country 5K Race	-	1,800	1,560	240
Dance & Drill Team	162	-	-	162
Drama Club	966	829	1,163	632
Elementary Special Education	2	-	-	2
Elementary 5th Grade	197	5,414	5,410	201
Elementary Memorial Fund	20	-	-	20
Elementary Office	1,331	2,342	2,439	1,234
Elementary P.T.O.	-	23,347	19,171	4,176
Football	1,397	5,952	6,206	1,143
Gertz Memorial Scholarship	-	1,000	1,000	-
Girls Basketball	24	1,353	1,009	368
Girls Softball	581	5,726	5,013	1,294
Golf	828	1,050	919	959
Grambau Memorial Scholarship	-	300	-	300
Greene Scholarship	33	-	-	33
Haan Crafts	20	-	-	20
Huron Wrestling Club	42	1,526	1,568	-
Industrial Tech.	135	751	796	90
Instrument Usage	-	821	630	191
Interest Income	403	2,438	2,370	471
Jr. High Athletics Fund	2,248	3,900	5,366	782
Jr. High Vocal Music	24	-	-	24
Key Club	461	4,192	4,106	547
Library	533	749	878	404
Math Tech Fund	-	100	100	-
National Honor Society	148	1,234	1,008	374

Rogers City Area Schools

**AGENCY FUND - STUDENT ACTIVITIES
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Year Ended June 30, 2007

	June 30, 2006	Revenues & Transfers	Expenses & Transfers	June 30, 2007
Natural Helpers	\$ 3,198	\$ 7,176	\$ 5,086	\$ 5,288
Office	1,985	379	270	2,094
Petty Cash	100	20	-	120
Pop Fund	1,423	2,489	3,158	754
RCHS Baseball	3,425	3,461	4,418	2,468
RCHS Special Education	71	-	-	71
Salmon in the Classroom	206	100	11	295
Ski Club	430	7,250	6,991	689
Softball Raffle	-	8,240	8,240	-
Spanish Club	894	-	13	881
Special Olympics	529	-	-	529
Student Council	312	1,116	1,244	184
Track	395	1,888	1,605	678
Voices in Harmony	281	919	1,200	-
Volleyball	760	10,118	9,731	1,147
Weight Room	324	320	-	644
Wrestling	1,561	25,581	23,856	3,286
Yearbook	2,935	11,160	12,570	1,525
Totals	<u>\$ 37,361</u>	<u>\$ 268,585</u>	<u>\$ 239,611</u>	<u>\$ 66,335</u>

Rogers City Area Schools

SCHEDULE OF INDEBTEDNESS

June 30, 2007

	<u>Interest</u>	<u>FY of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
1998 School Improvement Bonds	4.76%	2008	\$ -	\$ -
Date of issue: November 24, 1998	4.76%	2009	2,749	720
Amount of issue: \$49,400	4.76%	2010	2,880	589
	4.76%	2011	3,017	452
	4.76%	2012	17,212	6,096
	4.76%	2013	3,311	158
			<u>29,169</u>	<u>8,015</u>
2007 School Building and Site Bonds	3.80%	2008	145,000	39,195
Date of issue: January 30, 2007	3.90%	2009	155,000	33,685
Amount of issue: \$995,000	3.90%	2010	160,000	27,640
	4.00%	2011	170,000	21,400
	4.00%	2012	180,000	14,600
	4.00%	2013	185,000	7,400
			<u>995,000</u>	<u>143,920</u>
			<u>\$ 1,024,169</u>	<u>\$ 151,935</u>



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To the Board of Education
Rogers City Area Schools
Rogers City, Michigan

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS. We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Rogers City Area Schools**, as of and for the year ended June 30, 2007, which collectively comprise the **Rogers City Area Schools'** basic financial statements and have issued our report thereon dated August 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Rogers City Area Schools'** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Rogers City Area Schools'** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Rogers City Area Schools'** internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **Rogers City Area Schools'** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **Rogers City Area Schools'** financial statements that is more than inconsequential will not be prevented or detected by the **Rogers City Area Schools'** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **Rogers City Area Schools'** internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Rogers City Area Schools'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the **Rogers City Area Schools'** in a separate letter dated August 10, 2007.

This report is intended solely for the information and use of management, the audit committee, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Straley, Isley & Lamp P.C.

August 10, 2007



Certified Public Accountants

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September 10, 2007

To the Board of Education
Rogers City Area Schools
Rogers City, Michigan

We have audited the financial statements of Rogers City Area Schools for the year ended June 30, 2007, and have issued our report thereon dated August 1, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 10, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Rogers City Area Schools'. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Rogers City Area Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Rogers City Area Schools are described in Note 1 to the financial statements. No new accounting policies were adapted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's estimate of the depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the governmental unit's financial reporting process (that is, cause future financial statement to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the governmental unit, either individually or in the aggregate, indicate matters that could have a significant effect on the governmental unit's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Rogers City Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Reportable Conditions

Reportable conditions involve matters coming to our attention, under standards established by the American Institute of Certified Public Accountants, relating to significant deficiencies in the design or operations of the internal control structure that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose of financial statements. We discovered no reportable conditions that should be communicated to management. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions.

Other Matters

1. **Recent Pronouncements.** The Governmental Accounting Standards Board (GASB), in its continuing process of updating the accounting principles that all governmental units must adhere to, has issued the following recent pronouncements that will have an impact on the way the Rogers City Area Schools maintains its financial records:

- A. **GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.** This statement will require governmental units to record the cost of benefits (such as health insurance, life insurance, etc) in the periods when the related services are received by the employer if these benefits are not provided for through a pension plan. This will require the District to accrue and report an actuarially computed liability for any future postemployment benefit other than pensions. The requirements of this statement are effective for financial statements of the District for the year ended June 30, 2008.

- B. **GASB Statement No. 43 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.** This statement establishes uniform reporting standards for other postemployment benefit plans. The financial statements focus on reporting current financial information about plan net assets and required note disclosures include a brief plan description, a summary of significant accounting policies, and information about contributions and legally required reserves. The requirements of this statement are effective for financial statements of the District for the year ended June 30, 2008.

2. **Issues Likely to Impact Schools.**

- A. **Michigan Department of Education changes enforcement of Budgeting Act.** The Michigan Department of Education (MDE) has indicated it will aggressively pursue violations of the Uniform Budgeting and Accounting Act by school districts beginning with the retroactive enforcement to the 2004-05 fiscal year. For that year, the Department is only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget),
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.

Also, based on their interpretation of Section 17(2) of the Act, the MDE is currently considering that a violation of the Act also includes the situation where a district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by their school board.

To date, the Rogers City Area Schools has not made any material violations of the Budget Act, but the MDE is recommending that all school districts should amend their budgets for the 2006-07 fiscal year and beyond to comply with this new interpretation.

Districts should:

- Review and adjust their budgets to ensure that: your actual revenues will exceed their revenue budgets, including other financing sources
- Their actual expenditures will not exceed your functional level budgets, including other financing uses
- Ensure that the district does not budget a negative fund balance

B. Financial Issues. Over the past few years, and potentially for a few years beyond, the Rogers City Area Schools will be impacted by a number of significant financial issues. With the decline in the economy, financial markets, and declining tax collections, schools are likely to see a freeze or a minimal increase in State appropriations. Also, because pension contributions are based upon actuarial assumptions of the pension fund's asset base and earnings, future years will most likely require increased contributions. From 2005 to 2007, the Rogers City Area Schools contribution to the retirement system increased has increased from \$423,769 to \$477,429. Unrelated to the financial markets, the cost of health insurance premiums will most likely continue rising at double digit rates. Obviously, schools will be challenged by these fiscal obligations.

We wish to thank the staff of Rogers City Area Schools for their assistance during the audit.

This report is intended solely for the information and use of Rogers City Area Schools Board of Education, Michigan Department of Education, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

We commend the School for its excellent recordkeeping system and appreciate the opportunity to serve the Rogers City Area Schools. If you have any questions, or if we can be of further service, please do not hesitate to contact us.